

Economic and Revenue Update

Presented to
Senate Ways and Means Committee

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The updated economic forecast is fairly similar to the September forecast, but with slightly slower growth in Washington housing construction
- Uncertainty in the baseline remains very high, mostly due to concerns about China, federal fiscal policy, housing affordability and Europe
- Washington employment has been slowly increasing in most sectors; aerospace and the federal government are exceptions
- A technical change causes expected GF-S revenues to decrease by \$25 million in 2013-15 but the actual change in budgetary resources is an increase of \$16 million



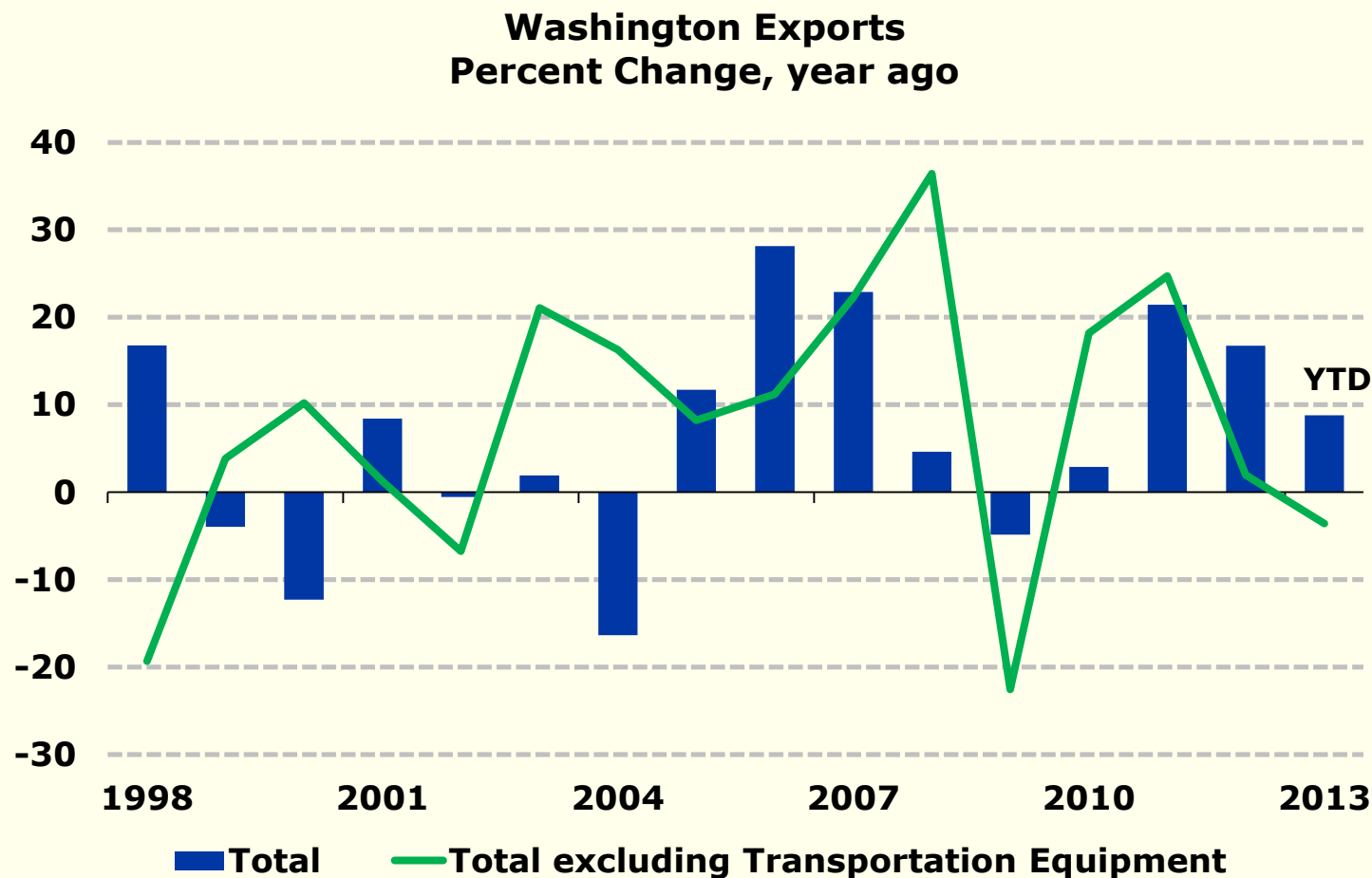
Four major risks to the forecast



Source: ERFC



Washington export growth has slowed



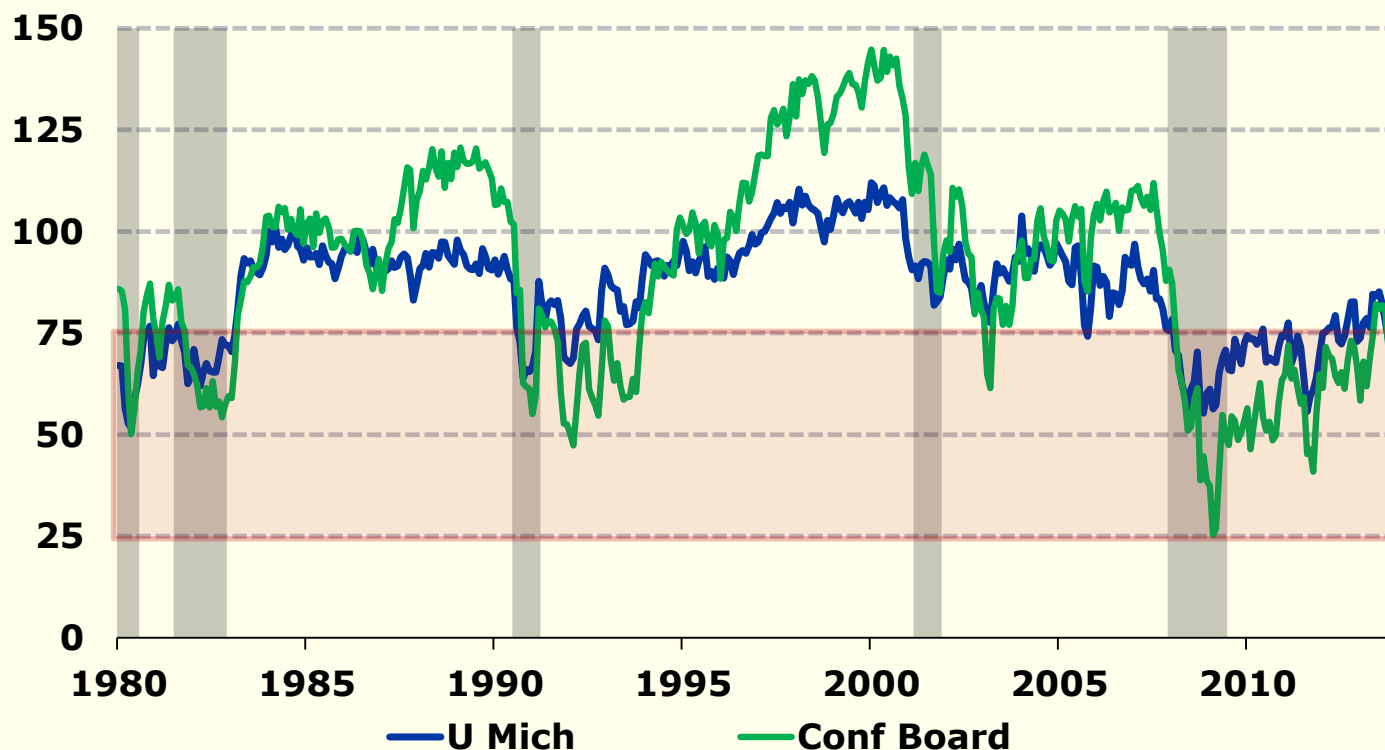


Consumer confidence weakened after the government shutdown

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Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

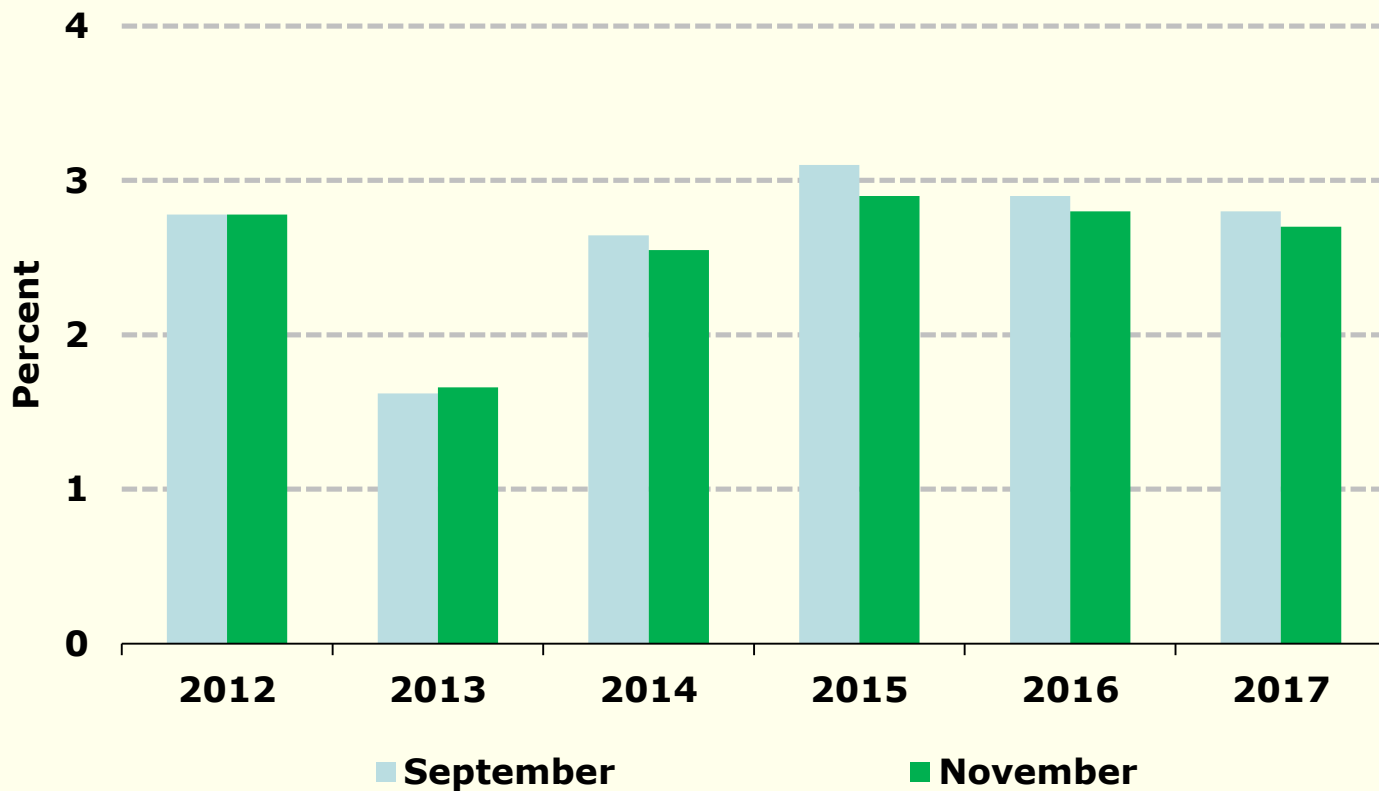


Source: University of Michigan; Conference Board, data through November 2013



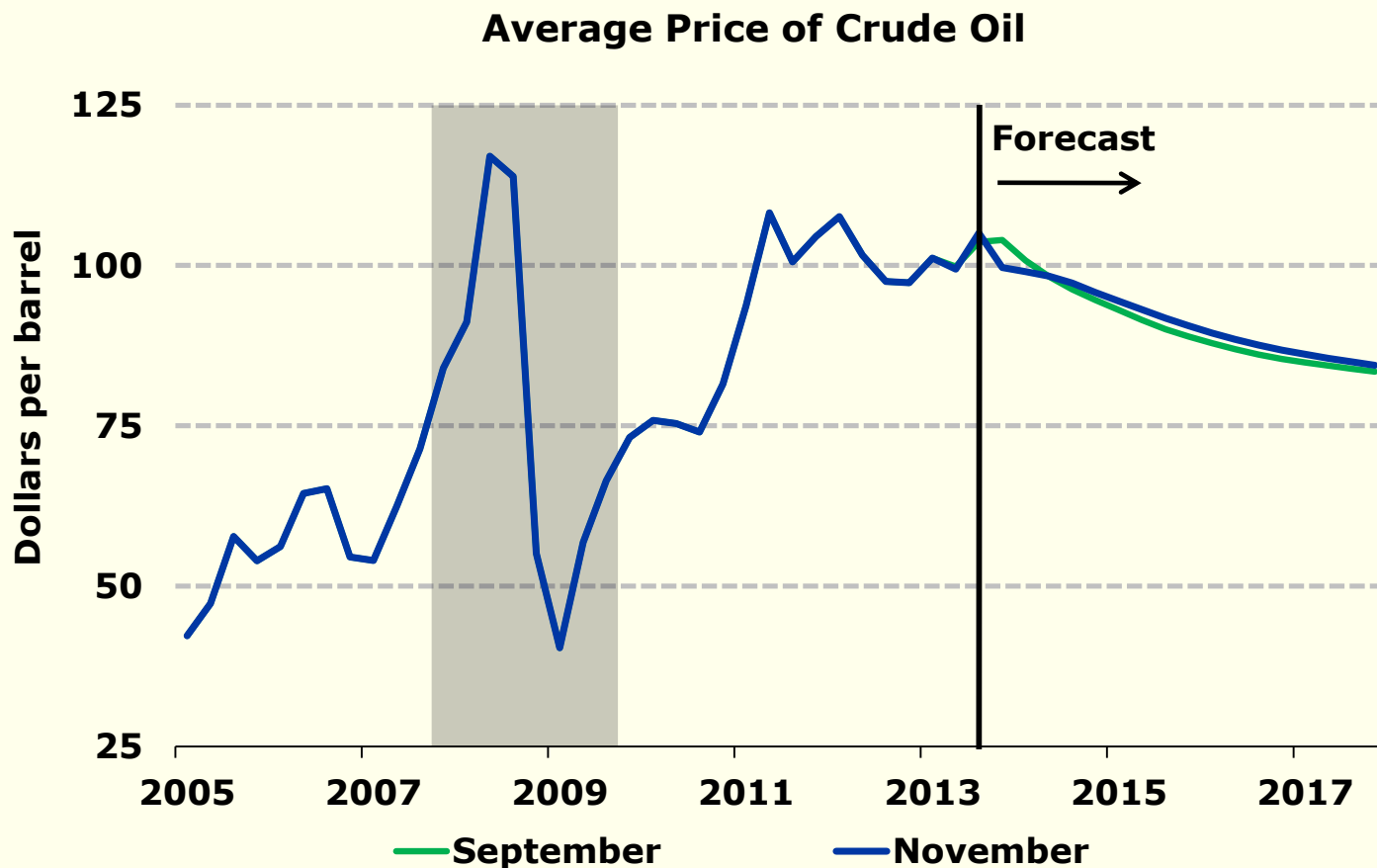
U.S. GDP forecast slightly lower after 2013

Blue Chip Consensus Real GDP forecast





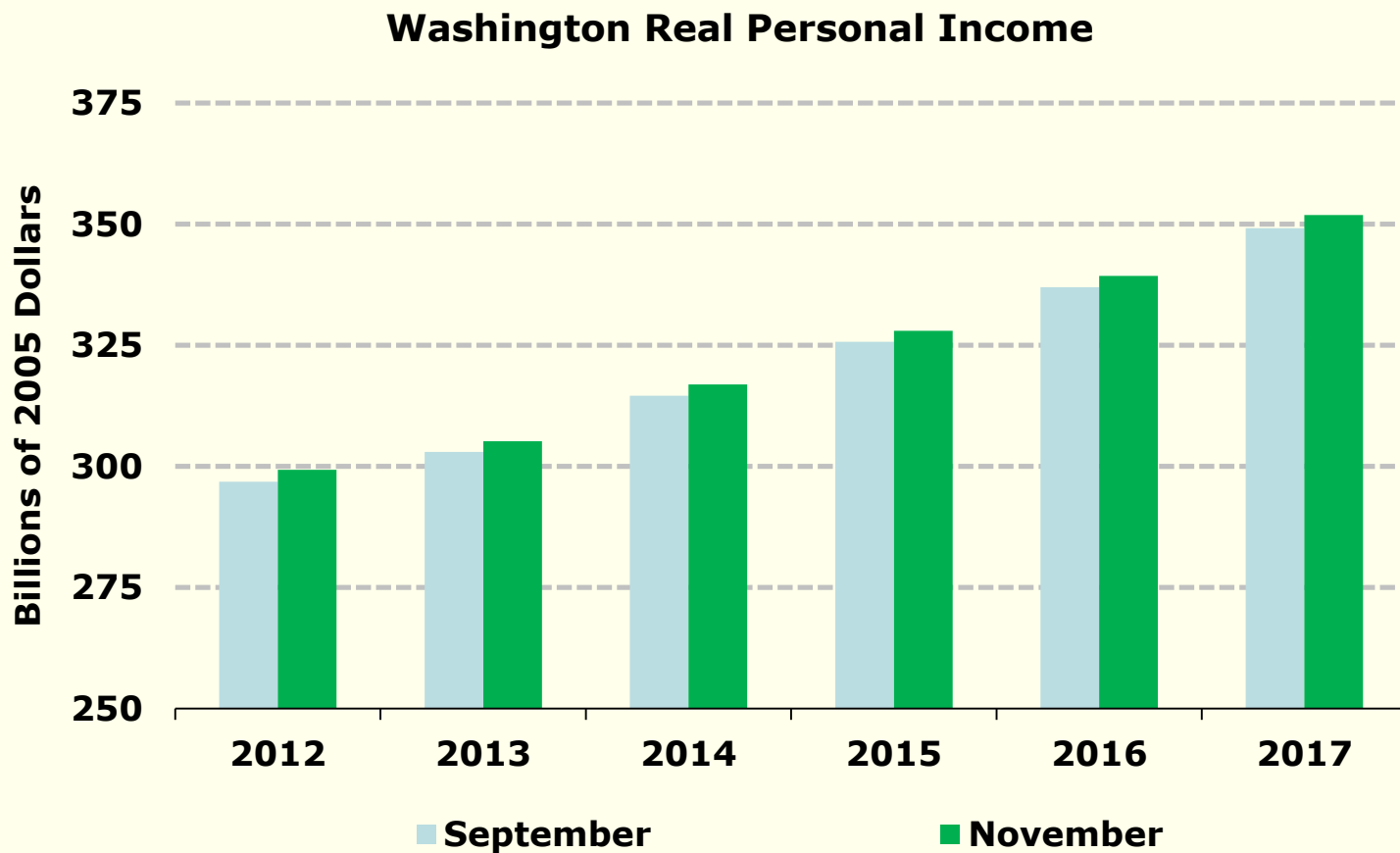
Oil prices are expected to be slightly lower in the near term





Washington real personal income forecast is slightly higher

Recent comprehensive data revisions added \$2.9 billion to 2012 state personal income

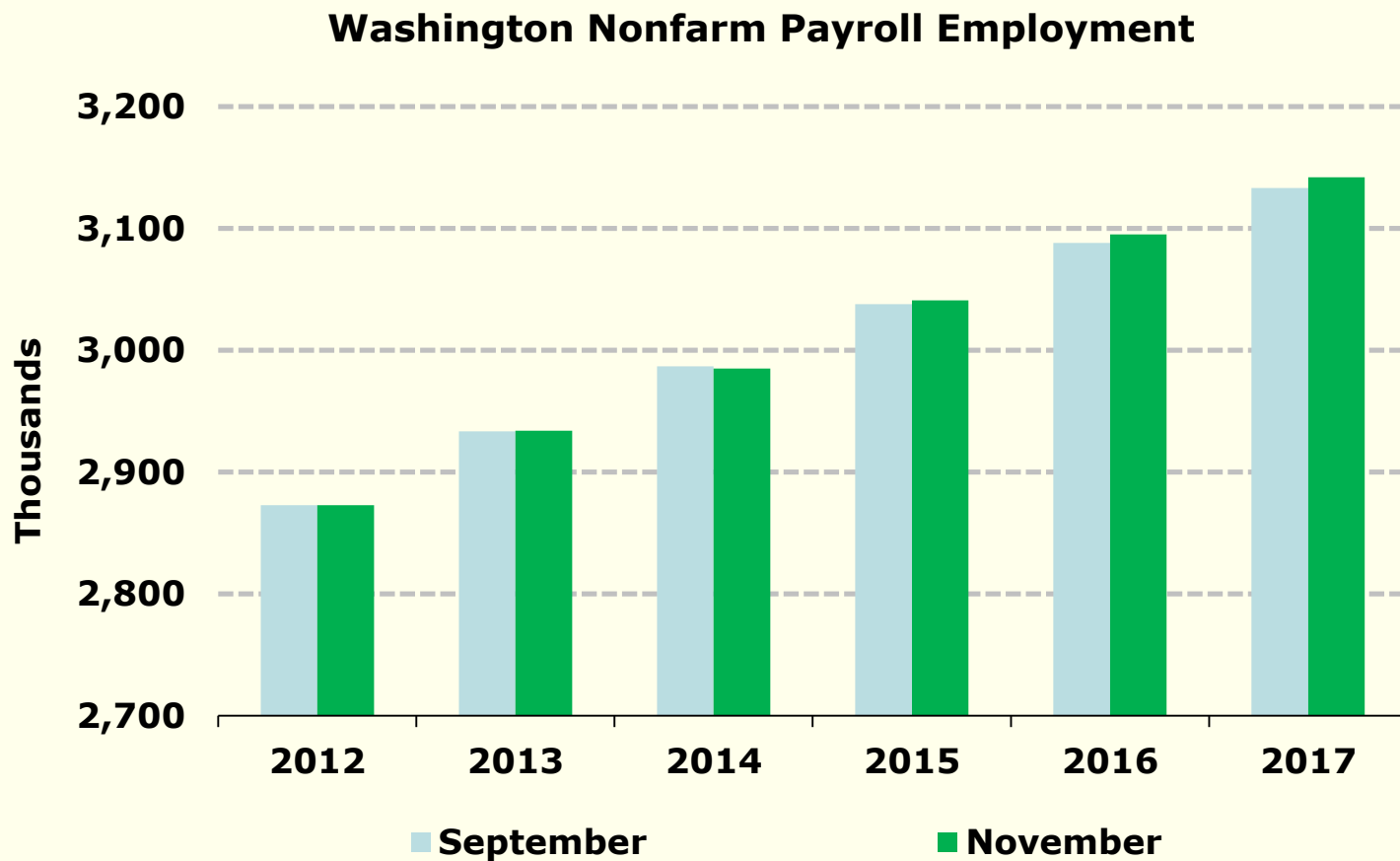


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Source: BEA, ERFC November 2013 Forecast; historical data through 2012



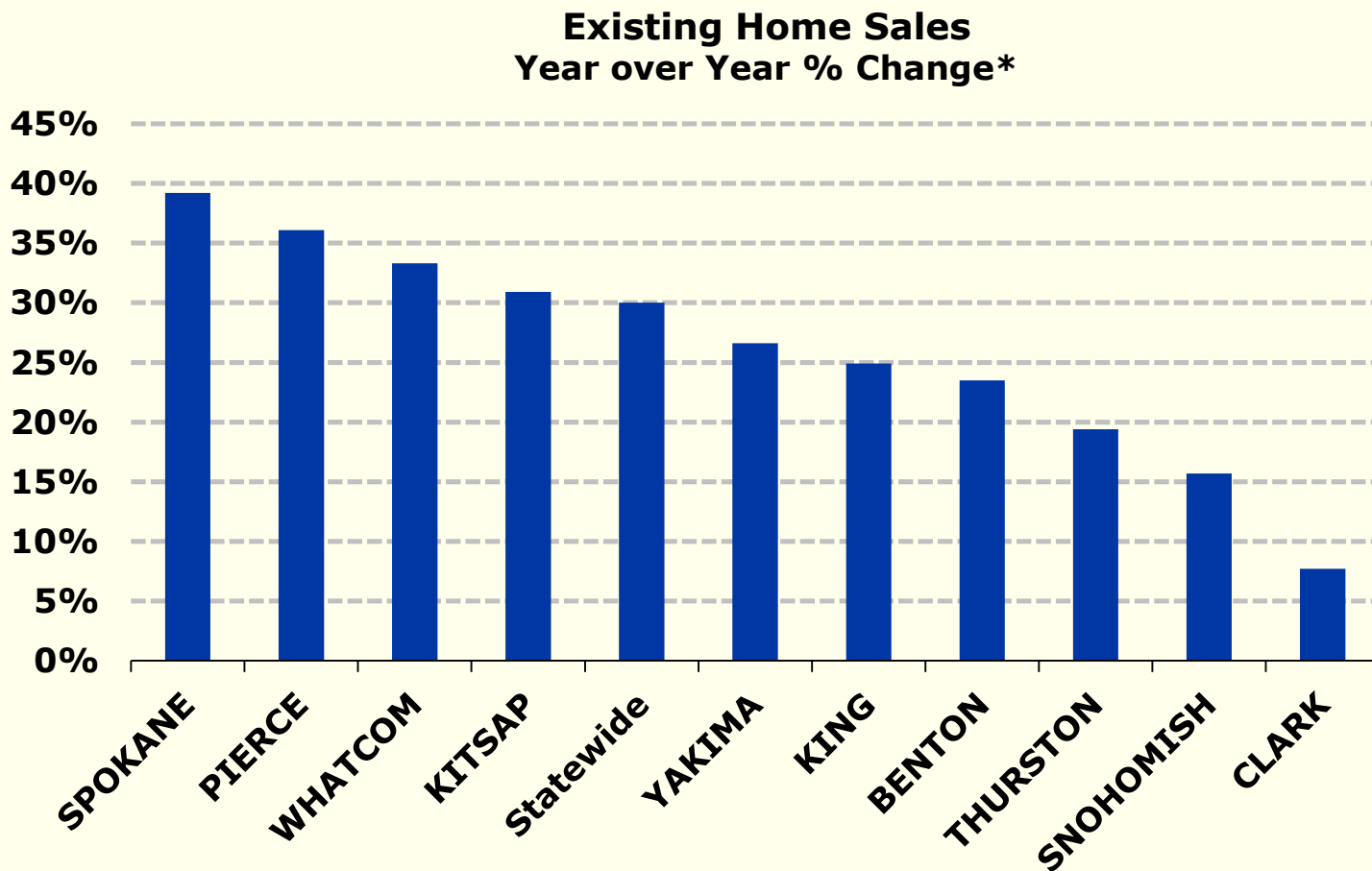
Washington payroll employment forecast is slightly higher after 2014





Strong growth in existing home sales statewide

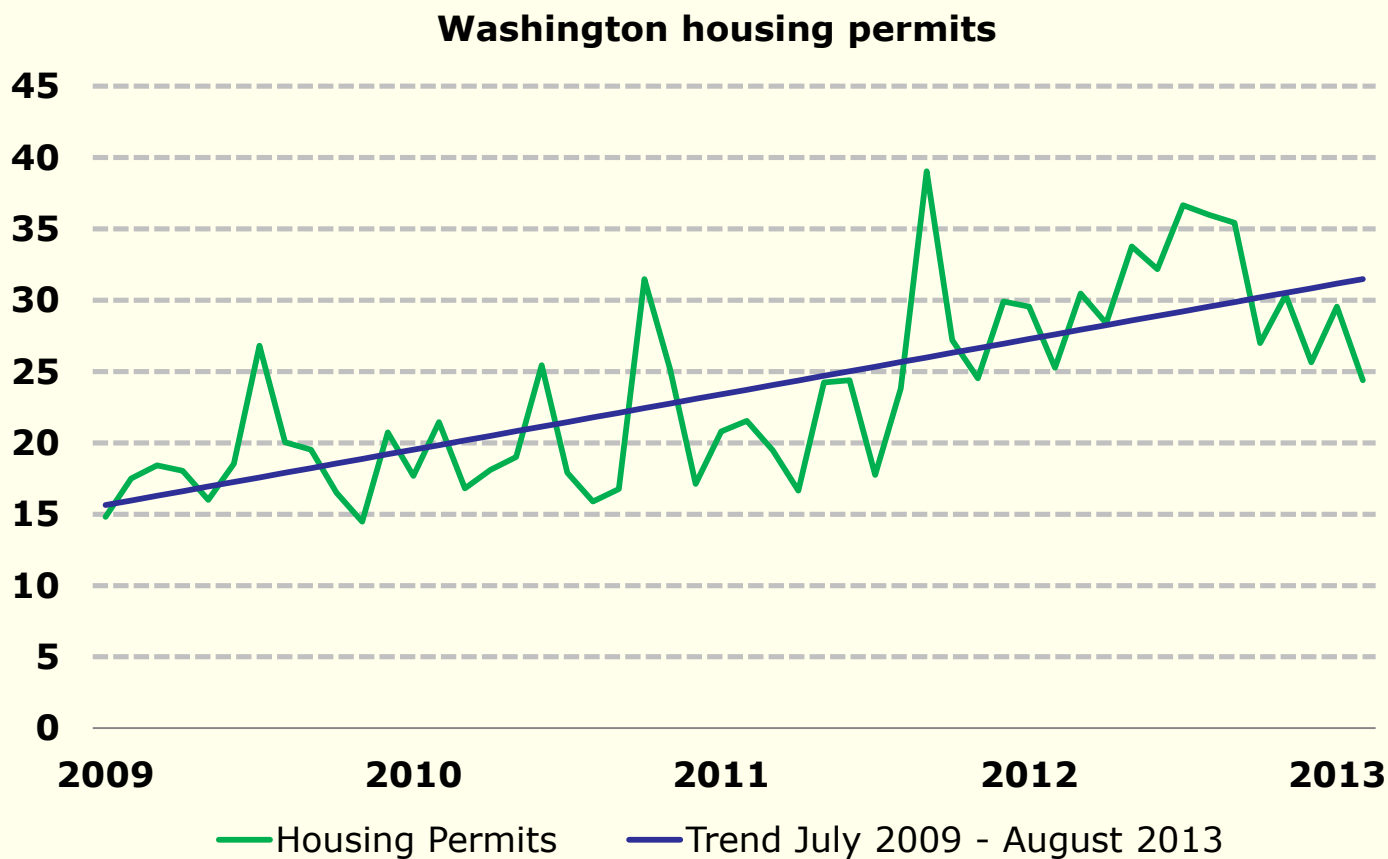
*Ten counties with highest existing home sales, 2013Q3



Source: WA Center for Real Estate Research, ERFC; 2013Q3 data

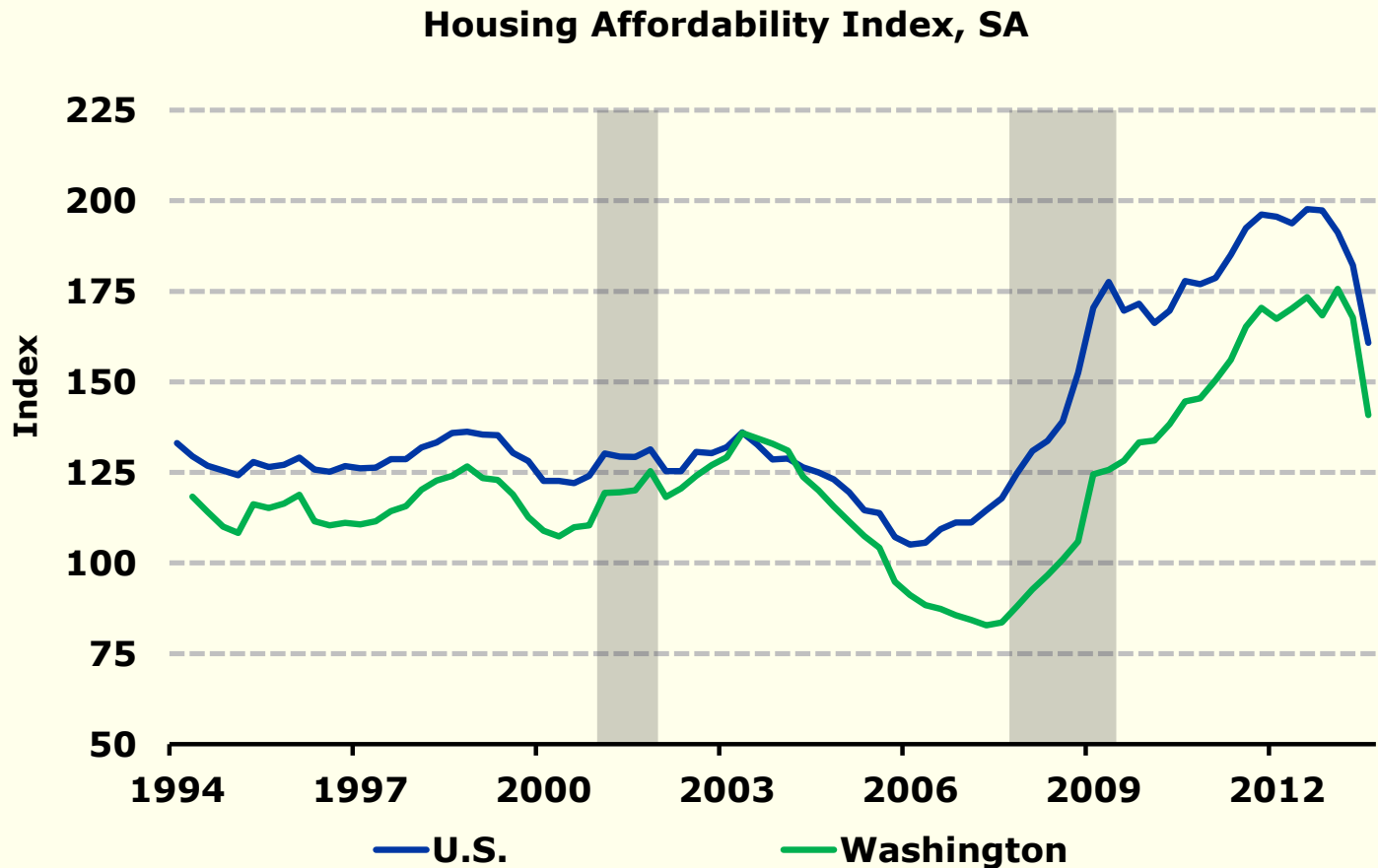


Housing permits below trend since April 2013



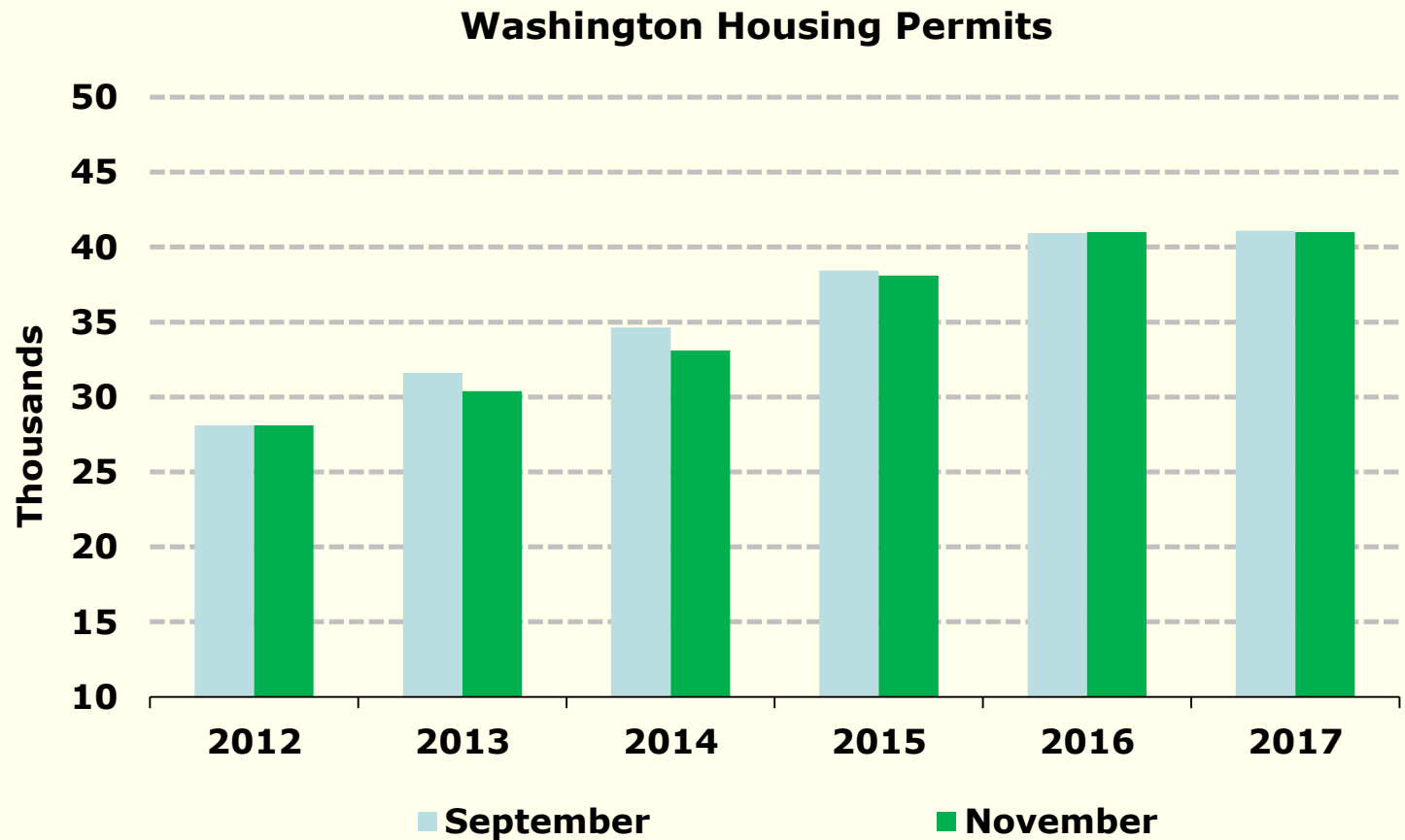


Rising mortgage rates and home prices have reduced affordability





Washington housing permits forecast is lower in the near term



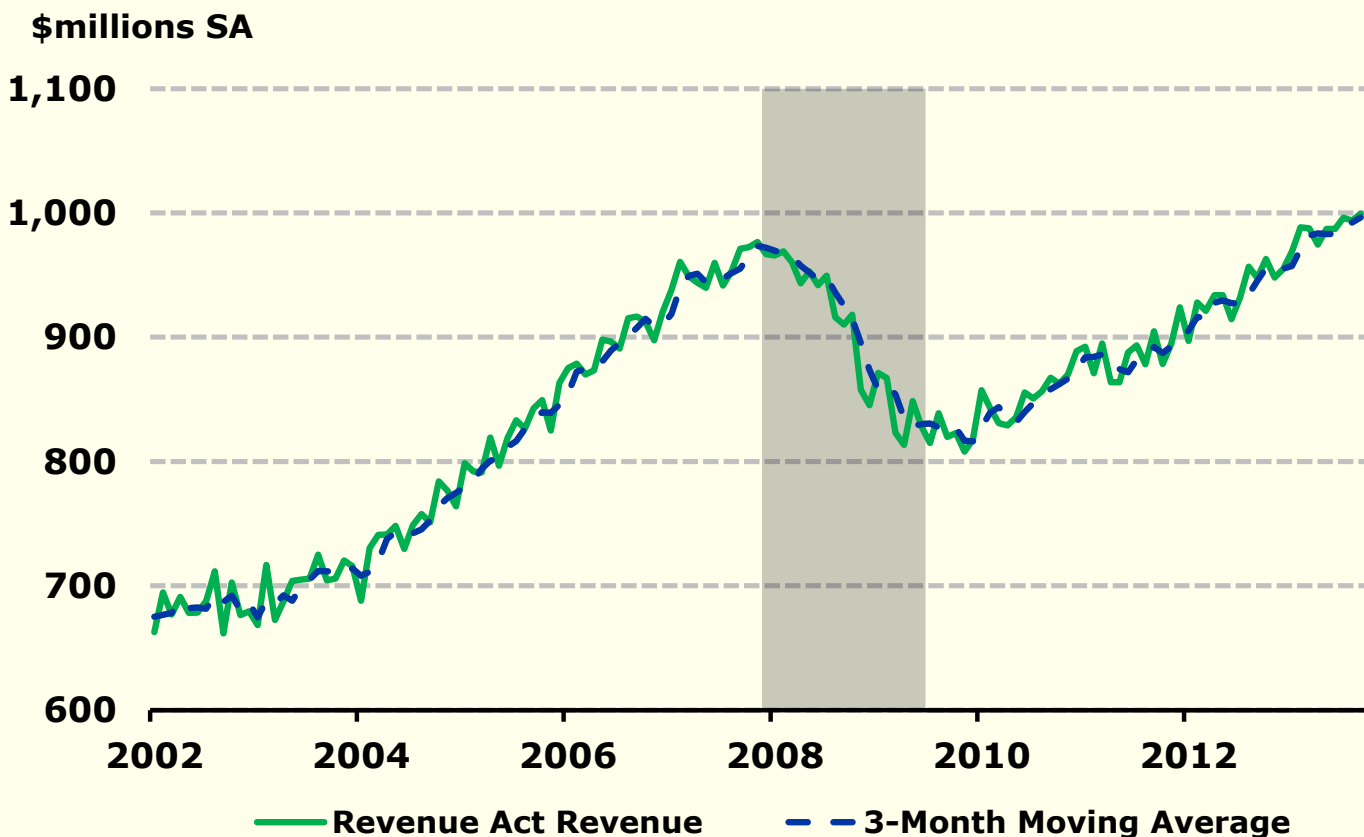


Rev Act collections still above pre-recession peak despite surtax sunset

Seasonally adjusted collections increased slightly in the October 11th - November 10th collection period (September taxable activity)

Collections in the previous period decreased due to the surtax sunset

The surtax brought in \$20-\$26 million per month



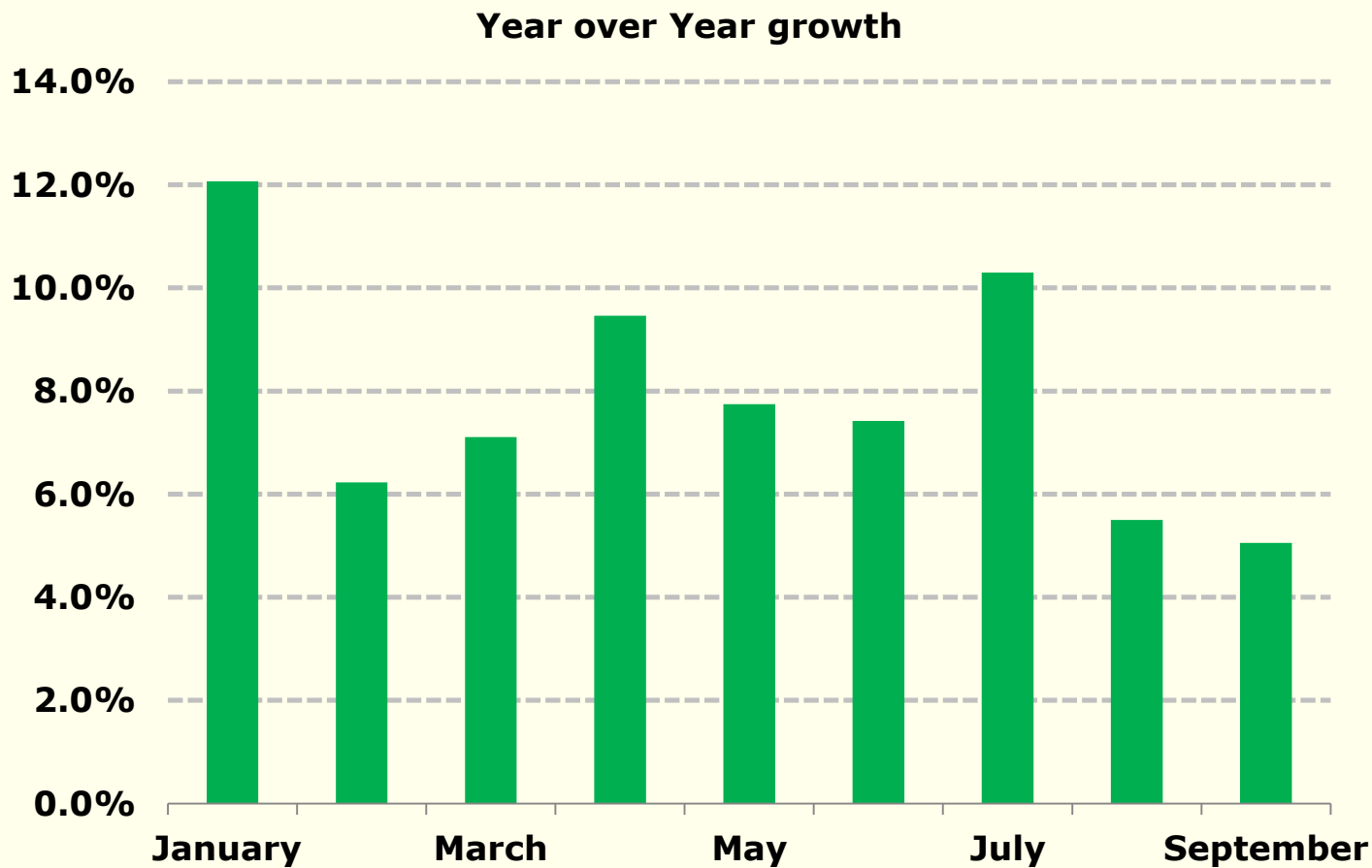
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated September 2013 activity

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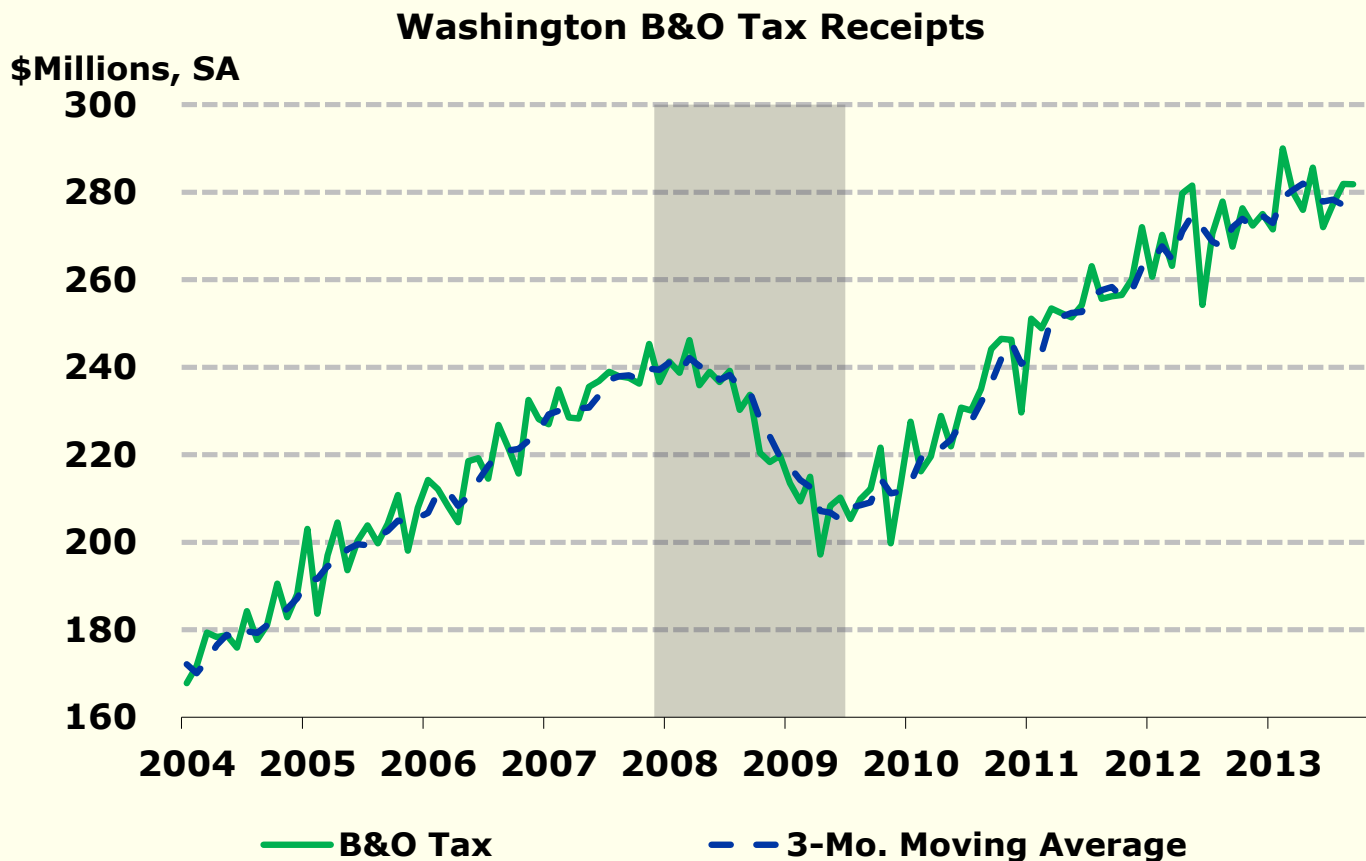
Sales tax growth has slowed in last two months





September B&O collections show effects of service surcharge removal

The 0.3% B&O service tax surcharge, effective May 1, 2010 – June 30, 2013, generated \$20-\$25 million in taxes per month over the last fiscal year



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Source: ERFC; Monthly data through September 2013 preliminary activity
Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds



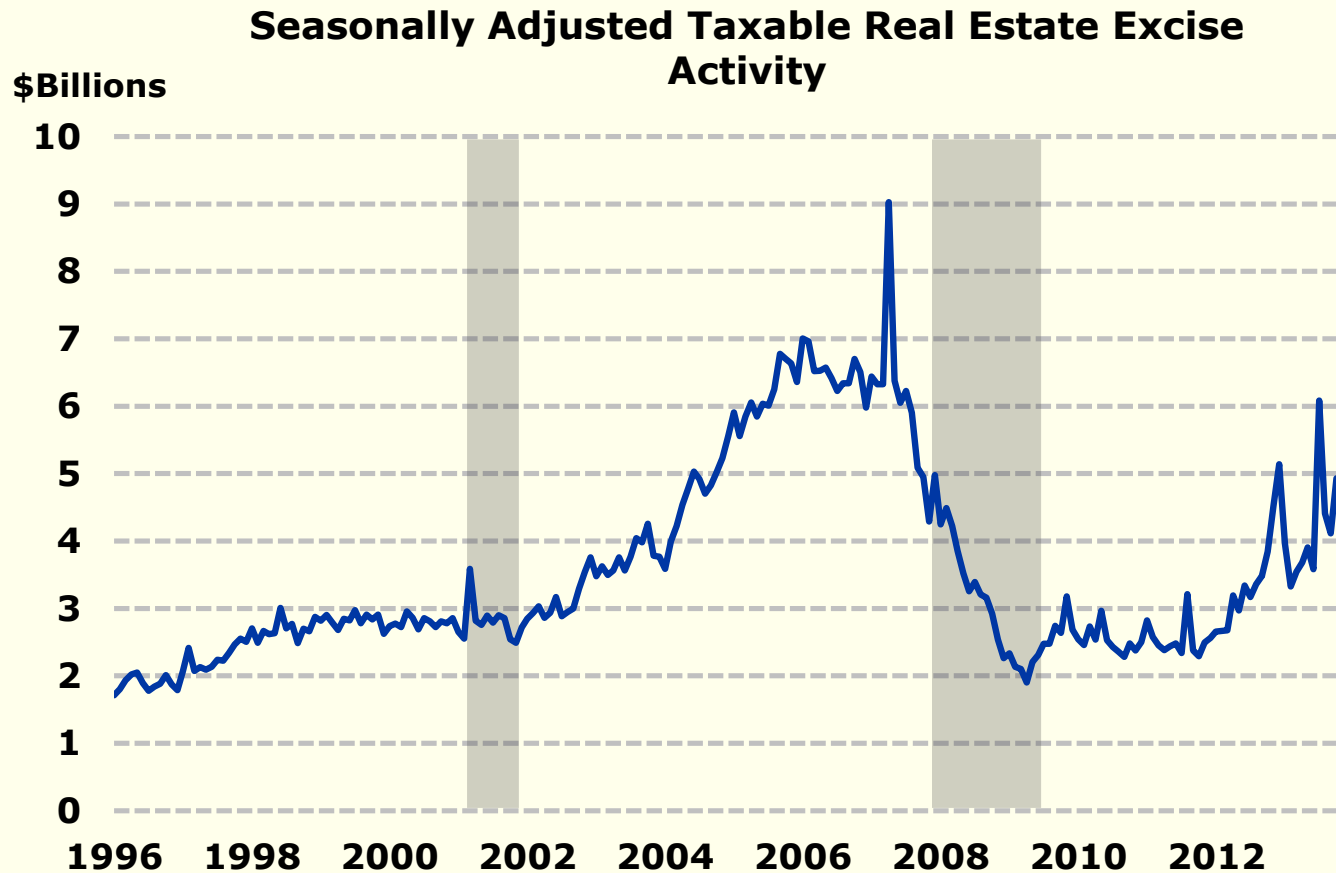
Underlying REET trend positive with occasional spikes in commercial sales

While the residential market has strengthened, investor interest in commercial property has brought several months of elevated large commercial sales

September sales of property worth \$10 million or more totaled \$222 million while October's sales totaled \$1 billion

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Source: ERFC; Monthly data through October 2013 preliminary



Total changes: General Fund State, Education Legacy Trust Account, and WA Opportunity Pathways Account

**2011-13
Biennium**

Final Totals

\$Millions	<u>Non-econ Change</u>	<u>Nov. Forecast Change</u>	<u>Nov. Forecast</u>	<u>Total Change</u> *	<u>Total Resource Change</u> *
General Fund-State	(\$22)	\$9	\$30,657	(\$13)	\$9
Education Legacy Trust	(\$0)	\$0	\$215	(\$0)	(\$0)
WA Opportunity Pathways Account	\$0	(\$0)	\$244	(\$0)	(\$0)
Total	(\$22)	\$9	\$31,116	(\$13)	\$9



Total changes: General Fund State, Education Legacy Trust Account, and WA Opportunity Pathways Account

**2013-15
Biennium**

\$Millions	<u>Non-econ Change</u>	<u>Nov. Forecast Change</u>	<u>Nov. Forecast</u>	<u>Total Change</u> *	<u>Total Resource Change</u> *
General Fund-State	(\$30)	\$6	\$32,973	(\$25)	\$16
Education Legacy Trust	\$0	\$13	\$377	\$13	\$13
WA Opportunity Pathways Account	\$0	(\$8)	\$229	(\$8)	(\$8)
Total	(\$30)	\$11	\$33,589	(\$19)	\$21



Changes in General Fund-State Balance Sheet from the Forecast

\$Millions	<u>2011-13 Biennium</u>	<u>2013-15 Biennium</u>
Change excluding reclassification	\$9.1	\$16.1
Removal of "Prior Period Adjustment"	-\$22.1	-\$40.9
Change in GF-S revenue section	-\$13.0	-\$24.8
Plus		
Change in "Total Resources" section	\$22.1	\$40.9
Net Balance Sheet Change	\$9.1	\$16.1

* Detail may not add to total due to rounding



Total changes: General Fund State, Education Legacy Trust Account, and WA Opportunity Pathways Account

**2015-17
Biennium**

\$Millions	<u>Non-econ Change</u>	<u>Nov. Forecast Change</u>	<u>Nov. Forecast</u>	<u>Total Change</u> *	<u>Total Resource Change</u> *
General Fund-State	(\$41)	(\$44)	\$35,615	(\$85)	(\$44)
Education Legacy Trust	\$0	(\$16)	\$397	(\$16)	(\$16)
WA Opportunity Pathways Account	\$0	\$4	\$237	\$4	\$4
Total	(\$41)	(\$56)	\$36,248	(\$97)	(\$56)



Conclusion

- A reclassification of some GF-S revenue as non-revenue resources has reduced the GF-S forecast for the 2011-13 and 2013-15 biennia but the revenue still appears on the budgetary balance sheet
- Taking the reclassification into account, the forecast marginally increases the projected and actual ending fund balances for the 2011-13 and 2013-15 biennia
- GF-S revenues grew 8.6% between the 2009-11 and 2011-13 biennium and are expected to grow 7.6% between the 2011-13 and 2013-15 biennium
- We continue to forecast slow economic and job growth for both the national and state economies
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



Questions



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